



DEPARTMENT OF THE ARMY  
HEADQUARTERS UNITED STATES ARMY FORCES COMMAND  
1777 HARDEE AVENUE SW  
FORT MCPHERSON GEORGIA 30330-1062

REPLY TO  
ATTENTION OF

AFLG-PR

18 Aug 99

SUBJECT: Contracting Information Letter (CIL) 99-37, DOD  
Pricing of Commercial Items

1. References:

a. CIL 98-22, Pricing of Commercial Items in the Absence of Adequate Price Competition dated 20 Apr 98.

b. General Accounting Office Report (GAO), DOD Pricing of Commercial Items Need Continued Emphasis dated Jun 99.

2. At the request of Congress, GAO conducted a review of commercial purchases to (1) determine the extent of price analysis DOD personnel were performing to arrive at fair and reasonable prices for commercial sole-source items, (2) evaluate how well contract personnel performed price analyses, and (3) determine what guidance and training was available to assist in determining price reasonableness. This review was mainly focused on the purchase of aircraft spare parts, which is DOD's largest category of commercial sole-source purchases.

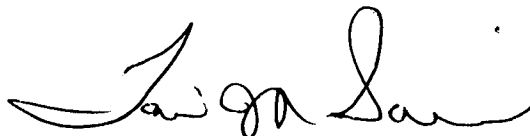
3. GAO found that in 33 of the 65 commercial sole-source purchases reviewed, price analysis consisted of comparing the offered price to an offeror's catalog or price list, and/or to the price(s) the government previously paid for the same or similar items. Contracting personnel accepted the offered price in 30 of the 33 purchases and negotiated lower prices in 3 cases (9 percent). In the other 32 purchases, contracting personnel used one or more additional price analysis tools such as obtaining commercial sales cost information. The offered price was accepted in 19 of the 32 purchases and a lower price was negotiated in 13 cases (41 percent). GAO also found the price analysis performed by contracting personnel was often too limited to ensure that prices were fair and reasonable. In some instances, contracting personnel believed that when the offered price was the same as the catalog or list price, it could be considered a fair and reasonable price. In other instances, the

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price analysis performed did not address pertinent historical pricing information contained in the contract files that should have raised questions about the reasonableness of offered prices. Further contracting personnel, generally, were not using a discretionary solicitation clause that requires offerors to provide information other than certified cost and pricing data, such as sales data, in support of the offered prices. Finally many contracting personnel were not documenting in the contract file how they determined that a price previously paid for an item was fair and reasonable and, therefore, could be relied on in evaluating the currently offered price. While GAO believes some price analyses were often too limited, they cannot say whether the prices would have been different had better price analysis been performed. The full GAO report can be accessed at <http://www.gao.gov/news.items/ns99090.pdf>.

4. Bottom line, as we expand more into the commercial marketplace, we must remember that acquiring commercial items and utilizing commercial practices do not relieve contracting personnel from the responsibility to determine whether prices are fair and reasonable and represent a good business decision.

A handwritten signature in black ink, appearing to read "Toni M. Gaines", with a stylized, flowing script.

TONI M. GAINES  
Chief, Contracting Division  
Principal Assistant Responsible  
for Contracting